



FEDERAL RESERVE SYSTEM

12 CFR Chapter II

[Docket No. OP- 1572]

Policy on Payment System Risk

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Policy statement.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) has revised part II of the Federal Reserve Policy on Payment System Risk (PSR policy) related to the transaction posting times used for measuring balances intraday in institutions' accounts at the Federal Reserve Banks (Reserve Banks) to conform to enhancements to the Reserve Banks' same-day automated clearinghouse (ACH) service.

DATES: *Effective Date:* September 15, 2017.

FOR FURTHER INFORMATION CONTACT: Jeffrey D. Walker, Assistant Director (202-721-4559), Jason Hinkle, Manager, Financial Risk Management (202-912-7805), or Ian C.B. Spear, Senior Financial Services Analyst (202/452-3959), Division of Reserve Bank Operations and Payment Systems; for users of Telecommunication Devices for the Deaf (TDD) only, contact 202/263-4869; Board of Governors of the Federal Reserve System, 20th and C Streets N.W., Washington, DC 20551.

SUPPLEMENTARY INFORMATION:

Background

The Board's PSR policy establishes the procedures for measuring balances intraday in institutions' accounts at the Reserve Banks by setting forth the times at which credits and debits for various types of transactions are posted to those accounts ("the

posting rules”).¹ The application of these posting rules determines an institution’s intraday account balance and whether it has incurred a negative balance (daylight overdraft).

On September 23, 2015, the Board approved enhancements to the Reserve Banks’ FedACH[®] SameDay Service (FedACH SameDay Service) in light of amendments to NACHA – The Electronic Payments Association’s Operating Rules and Guidelines.² The first phase of the FedACH SameDay Service provided for same-day settlement of ACH credit transactions. As part of the implementation of the second phase of the FedACH SameDay Service, forward ACH debit transactions will be eligible for same-day settlement effective September 15, 2017.³ The PSR policy’s posting rules for same-day ACH return transactions are being updated to conform to the associated changes in the Reserve Banks’ service as described below.

Today, the Reserve Banks’ offer an ACH derived returns function for institutions that connect to the Reserve Banks’ ACH service through the FedLine Web[®] access solution. The derived return function allows an institution to generate returns via FedLine Web using information from the forward ACH items that an institution receives

¹ The Board’s PSR policy is available at https://www.federalreserve.gov/paymentsystems/files/psr_policy.pdf.

² 80 FR 58248 (Sep. 28, 2015). NACHA, whose membership consists of insured financial institutions and regional payment associations, establishes network-wide ACH rules through its Operating Rules and Guidelines. As an ACH operator, the Reserve Banks, through Operating Circular 4, incorporate NACHA’s Operating Rules and Guidelines as rules that govern clearing and settlement of commercial ACH items by the Reserve Banks, except for those provisions specifically excluded in the Operating Circular.

³ The NACHA amendments, as incorporated into Operating Circular 4, become effective in three phases, beginning with same-day credits in September 2016, same-day debits in 2017, and faster funds availability in March 2018. Next-day settlement remains available.

through FedACH. The function is designed primarily for institutions that lack the software or processing capability to generate returns themselves.

The derived returns function uses information not available until the day after the processing day for forward ACH item and thus cannot be used to generate returns of items settled the same processing day. Given the phase two expansion of the FedACH SameDay Service to include ACH debits, the Reserve Banks will provide users of the derived return function an interim solution to return certain high-value same-day forward items for settlement on the same processing day. Specifically, the Reserve Banks intend to introduce a same-day paper return option for same-day forward entries greater than \$10,000. This option will be added to the existing FedACH Facsimile Exception Return/NOC service.⁴ Return items initiated as part of that option will post at 5:30 p.m. on the same day as the forward item was processed.⁵ The introduction of the new paper-return option for same-day forward entries is intended to serve as an interim solution while the Reserve Banks complete their ACH platform modernization project. Once completed, the Reserve Banks anticipate providing users of FedLine Web derived returns the automated ability to derive returns for same-day forward entries to be settled the same processing day.

In addition, the Board is updating the PSR policy to clarify that paper returns and paper notifications of change (NOCs) of prior-dated items will only post at 5:00 p.m.,

⁴ The FedACH Facsimile Exception Return/NOC service allows institutions to submit return/NOC items via a paper form when electronic methods are otherwise unavailable.

⁵ ACH return items not initiated as part of the derived returns function but processed by the Reserve Banks will continue to post at the next available posting time or following the settlement of the associated forward transaction. Thus, credits and debits for return items will continue to post at 8:30 a.m., 1:00 p.m., 5:00 p.m., or 5:30 p.m., with the specific posting time determined by when the item is received by the Reserve Banks.

removing reference to an 8:30 a.m. posting time. These paper items are manually processed by Reserve Bank staff during normal business hours and not overnight, which an 8:30 a.m. posting time would require. FedLine Web returns and FedLine Web NOCs will continue to post at 8:30 a.m. and 5:00 p.m., depending on when the item is received by Reserve Banks.

Policy on Payment System Risk

The Federal Reserve Policy on Payment System Risk, section II.A, under the heading “Procedures for Measuring Daylight Overdrafts” and the subheadings “Post at 8:30 a.m. eastern time,” “Post by 1:00 p.m. eastern time,” “Post at 5:00 p.m. eastern time,” and “Post at 5:30 p.m. eastern time,” is amended as follows:

Post at 8:30 a.m. eastern time:

- +/- Term deposit maturities and accrued interest
- +/- Government and commercial ACH transactions, including return items⁶

⁶ With the exception of paper returns and paper notifications of change of prior-dated items that only post at 5:00 p.m.; and paper returns of same-day forward items that only post at 5:30 p.m.

Institutions that are monitored in real time must fund the total amount of their commercial ACH credit originations in order for the transactions to be processed. If the Federal Reserve receives commercial ACH credit transactions from institutions monitored in real time after the scheduled close of the Fedwire Funds Service, these transactions will be processed at 12:30 a.m. the next business day, or by the ACH deposit deadline, whichever is earlier. The Account Balance Monitoring System provides intraday account information to the Reserve Banks and institutions and is used primarily to give authorized Reserve Bank personnel a mechanism to control and monitor account activity for selected institutions. For more information on ACH transaction processing, refer to the ACH Settlement Day Finality Guide available through the Federal Reserve Financial Services website at <http://www.frb services.org>.

The federal government will not participate in the same-day ACH service upon initial implementation in September 2016. ACH forward transactions originated or received by the federal government will not be eligible for same-day settlement and will settle on the next business day, or on a future date as indicated by the effective settlement date.

- +/- Commercial check transactions, including returned checks⁷
- + Treasury checks, postal money orders, local Federal Reserve Bank checks, and savings bond redemptions in separately sorted deposits; these items must be deposited by the latest applicable deposit deadline preceding the posting time
- + Advance-notice Treasury investments
- Penalty assessments for tax payments from the Treasury Investment Program (TIP).⁸

Post by 1:00 p.m. eastern time:

- +/- Commercial check transactions, including returned checks
- +/- FedACH SameDay Service transactions, including return items⁹
- + Same-day Treasury investments.

Post at 5:00 p.m. eastern time:

- +/- FedACH SameDay Service transactions, including return items¹⁰
- + Treasury checks, postal money orders, and savings bond redemptions in separately sorted deposits; these items must be deposited by the latest applicable deposit deadline preceding the posting time
- + Local Federal Reserve Bank checks; these items must be presented before 3:00 p.m. eastern time

Post at 5:30 p.m. eastern time:

- +/- FedACH SameDay Service return transactions¹¹

⁷ For the three commercial check transaction posting times, the Reserve Banks will post credits and debits to institutions' accounts for checks deposited and presented, respectively, at least 30 minutes before the posting time.

⁸ The Reserve Banks will identify and notify institutions with Treasury-authorized penalties on Thursdays. In the event that Thursday is a holiday, the Reserve Banks will identify and notify institutions with Treasury-authorized penalties on the following business day. Penalties will then be posted on the business day following notification.

⁹ With the exception of paper returns and paper notifications of change (NOCs) of prior-dated items that only post at 5:00 p.m.; paper returns of same-day forward items that only post at 5:30 p.m.; and FedLine Web returns and FedLine Web NOCs that only post at 8:30 a.m. and 5:00 p.m., depending on when the item is received by Reserve Banks.

¹⁰ With the exception of paper returns of same-day forward items that only post at 5:30 p.m.

¹¹ With the exception of paper returns and paper notifications of change (NOCs) of prior-dated items that only post at 5:00 p.m.; and FedLine Web returns and FedLine Web

+/- Commercial check transactions, including returned checks

By order of the Board of Governors of the Federal Reserve System, acting through the Director of the Division of Reserve Bank Operations and Payment Systems under delegated authority, August 21, 2017.

Ann E. Misback,
Secretary of the Board.

NOCs that only post at 8:30 a.m. and 5:00 p.m., depending on when the item is received by Reserve Banks.

